

Material Related Party Transactions

Purpose

To comply with Securities and Exchange Commission (SEC) Memorandum Circular No. 10 Series of 2019 (re: Rules on Material Related Party Transactions for Publicly-Listed Companies).

Scope

This applies to Branches, Head Office Units, Subsidiaries and Affiliates.

Definition

- 1. Related parties** – covers the directors, officers, substantial shareholders and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the Bank. It also covers the Bank's parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.

For purposes of this policy, officers with control or significant influence over the Bank refer those with rank of Senior Executive Vice President and above, and those holding Sector Head positions.

- 2. Substantial Shareholder** – any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of Bank's equity security.
- 3. Affiliate** – refers to an entity linked directly or indirectly to the Bank through any one or a combination of any of the following:
 - a. Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) or more of the outstanding voting stock of the Bank, or vice-versa;
 - b. Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations;
 - c. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Bank and the entity; or
 - d. Management contract or any arrangement granting power to the Bank to direct or cause the direction of management and policies of the entity, or vice-versa.
- 4. Associate** – an entity over which the Bank holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the reporting PLC has significant influence.
- 5. Significant influence** – the power to participate in the financial and operating policy decisions of the Bank but has no control or joint control of those policies.
- 6. Control** – a person or an entity controls the Bank if and only if the person or entity has all the following:
 - a. Power over the Bank;
 - b. Exposure, or rights, to variable returns from its involvement with the Bank; and
 - c. The ability to use its power over the Bank to affect the amount of the Bank's returns.
- 7. Material Related Party Transactions** – any related party transaction/s, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent

(10%) or higher of the Bank's total consolidated assets based on its latest audited financial statement.

Policy Statements

A. Identification of Material Related Party Transactions (MRPTs)

The Proponent Unit shall have the primary responsibility to –

1. Identify material RPTs either individually, or in aggregate over a twelve (12)-month period with the same party, amounting to ten percent (10%) or higher of the Bank's total consolidated assets.
2. Appoint an external independent party to evaluate the fairness of the terms of the material RPT. An external independent party may include, but is not limited to, auditing/accounting firms and third party consultants and appraisers.
3. Endorse material RPTs to the appropriate transaction approving authority for approval and thereafter, submit to Compliance Division, with all the supporting documents, including the results of the external independent party, for review and confirmation prior to the execution of the transaction.
4. MRPTs that were previously entered into by an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in this MRPT policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the unrelated party becomes a related party shall subject such MRPTs to the requirements of this MRPT policy. The prospective treatment shall be without prejudice to regulatory actions that may be enforced for transactions noted to have not been conducted on an arm's length basis.

B. Review and Approval of Material Related Party Transactions (MRPTs)

1. The RPTC shall evaluate and endorse for the approval of the BOD all Material Related Party Transactions (MRPTs). After the review of the RPTC, all proposals shall be endorsed by the proponent unit to the BOD for approval.
2. All individual material related party transactions shall be approved by at least two-thirds (2/3) vote of the BOD, with at least majority of the independent directors voting to approve the material RPT. In case that a majority of the independent directors' vote is not secured, the material RPT may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.
3. For aggregate RPT transactions within twelve (12)-month period that breaches the materiality threshold of ten percent (10%) of the Bank's total consolidated assets, the same BOD approval would be required for the transaction/s that meets and exceeds the materiality threshold covering the same related party.
4. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction. No director or officer shall participate in the RPTC and BOD discussion of a material RPT for which he, she or any member of his or her close family or related interest is involved, including transactions of subordinates, except in order to provide material information on the related party transaction to the RPTC/BOD.
5. Directors, substantial shareholders and officers shall fully disclose to the BOD all material facts related to the material RPTs as well as their direct and indirect financial interest in any transaction or matter that may affect or is affecting the Bank. Such disclosure shall be made at the BOD meeting where the material RPT will be presented for approval and before the completion or execution of the material RPT.

D. Self-assessment and Periodic Review of Policy

1. The Internal Audit Group (IAG) shall conduct a periodic review of the effectiveness of the Bank's system and internal controls governing material related party transactions to assess consistency with the Board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Audit Committee, RPTC and BOD.
2. The Compliance Officer shall ensure that the Bank complies with the relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. The Compliance Officer shall aid in the review of the Bank's transactions and identify any potential material Related Party Transaction that would require review/approval by the RPTC and/or BOD. He shall ensure that this policy is kept updated and is properly implemented throughout the Bank.

E. Disclosure and Regulatory Reporting

The Bank shall submit the following to the Securities and Exchange Commission –
Reporting

1. A summary of material RPTs entered into during the reporting year shall be disclosed in the Bank's Integrated Annual Corporate Report (I-ACGR) to be submitted annually every May 30;
2. Advisement Report on Material RPTs shall be filed within three (3) calendar days after the execution date of the transaction with the SEC. The Advisement Report shall be signed by the Bank's Corporate Secretary or authorized representative.
3. At a minimum, the disclosures in both 1 and 2 shall include the following information:
 - a. complete name of the related party
 - b. relationship of the parties
 - c. execution date of the material RPT
 - d. financial or non-financial interest of the related parties
 - e. type and nature of transaction as well as a description of the assets involved;
 - f. total consolidated assets
 - g. amount or contract price;
 - h. percentage of the contract price to the total consolidated assets of the Bank
 - i. carrying amount of collateral, if any;
 - j. terms and conditions;
 - k. rationale for entering into the transaction; and
 - l. the approval obtained (i.e. names of directors present, names of directors who approved the material RPT and the corresponding voting percentage obtained).
4. The Material RPT Policy with accessible link shall be posted on the Bank's website.

F. Whistle Blowing Mechanism and Penalties for Non-Compliance

1. Existing guidelines on the Whistle Blowing Policy shall be observed in case of any legitimate concerns about illegal, unethical and questionable RPTs (***MOPP Vol. 5, POL. 2301 re: Whistle Blowing Policy***).
2. The Compliance Officer shall monitor compliance of the Bank to the RPT Policy and the rules and regulations of regulatory agencies. Any material breaches/violations shall be reported to the BOD through the RPTC. The Compliance Officer shall also recommend measures that would cut losses and allow recovery of losses or opportunity costs incurred by the Bank arising from RPTs that are not engaged on arm's length terms, the imposition of appropriate disciplinary action on the responsible parties, and the adoption of measures to prevent a repetition of the violation.
3. The imposition of disciplinary action shall be governed by the Bank's existing policy (***MOPP Vol. 5, POL. 2300 re: Omissions/Errors/Offenses***).

Benefit

The prescribed guidelines shall ensure that material transactions with related parties are reviewed to assess risks, are subject to appropriate restrictions to ensure that such are conducted at arm's-length terms, and that corporate or business resources of the Bank are not misappropriated or misapplied.